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California State Tax Commission.

Foreword on taxation in California

[Sacramento]

[1916]

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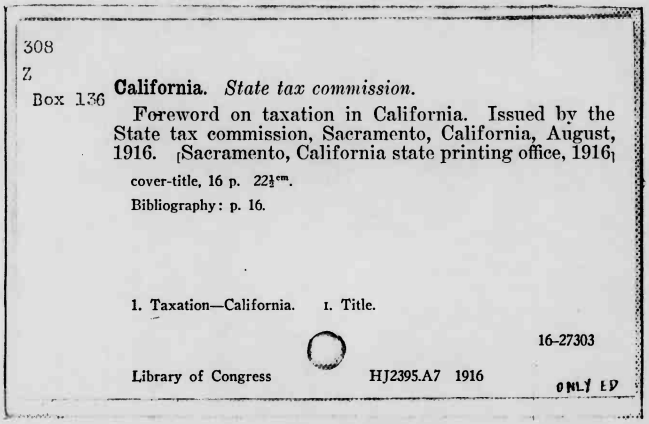

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FOREWORD

ON

Taxation in California

Issued by the
STATE TAX COMMISSION
Sacramento, California
AUGUST, 1916

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CONTENTS.

	Page.
CLASSIFICATION OF LAND	5
CITY ASSESSMENTS	7
ONE ASSESSMENT FOR ALL TAX PURPOSES	8
NOTIFICATION OF TAXES AND ASSESSMENTS	9
COLLECTION OF TAXES AND ASSESSMENTS	10
RECORD OF CONSIDERATION IN REAL ESTATE TRANSFERS	10
COUNTY CHARTERS AND TAX LIMITATION	11
EXEMPTION OF CHATTEL MORTGAGES	11
TAX ON AUTOMOBILES	12
INCOME TAX	12
TAX ON EXCESS LAND VALUES	12

PREFACE.

AUTHORITY AND INTENT OF THE STATE TAX INVESTIGATION.

Chapter 194 of the Statutes of 1915 makes provision for certain officers "to investigate the systems of revenue and taxation in force in this and other states, and particularly to examine into any and all matters appertaining to the subjects of revenue and taxation in this state."

Also, "a special investigation and report upon the matter of the relative burden of taxation borne by general property values and corporation property values taxed directly by the state under the existing system of taxation."

Also, "a special investigation and report upon the matter of reimbursements to counties which sustain loss of revenue by the withdrawal of railroad property under the provisions of section 14 of Article XIII of the constitution."

The findings of this investigation are to be reported to the legislature which meets in 1917.

The matter of the investigation upon the relative burden of taxation as between general property and corporation property, and also the investigation in regard to the reimbursements to counties for loss of revenue because of the withdrawal of railroad property, will be based upon the conclusions obtained from the appraisements of property of these two classes. This work as yet has not reached the point where any conclusions can be drawn, and, therefore, will not be touched upon at this time.

The Commission thought wise, however, to enter into a discussion of some of the important matters pertaining to the general subject of revenue and taxation in this state, and for that purpose is issuing this first discussion in the form of a foreword on taxation in California.

It is the intention of the Commission to follow this with new matter and fuller discussions of some of the subjects herein contained after the same have been subjected to criticism by the press and by the public.

INTRODUCTORY.

The object of this foreword is to get before the press and the public in brief shape some of the questions on taxation which seem worthy of serious thought, with the idea of inciting study, criticism and debate. This is not our final word on the subjects discussed.

If we appear to draw definite conclusions it should be known that our minds are wide open for more light. We hope for honest, vigorous discussion.

Every person who owns property, who pays rent, who eats and lives is interested vitally in the question of taxation.

We desire to obtain personal opinions, whatever they may be, on any one of the subjects outlined, or on any other phase of the question of taxation.

CLASSIFICATION OF LAND.

One of the greatest faults in our present system of taxation is the lack of attention to the matter of remedying defects by the introduction of practical methods in establishing equality in assessment.

Practically no fundamental change has taken place in our methods of assessments since the state was admitted to the Union. The marked changes are those that have been forced through the necessities of the growth of the larger cities. Here some of the modern methods in valuation have been put into effect, but in the outlying districts, in the vast expanse of our millions of agricultural acres in the state, no adequate effort has been attempted toward proper valuation.

As a matter of fact, it is as feasible, and perhaps simpler, to lay a proper foundation for the assessment of farm lands than for city property, because the shifting and changing conditions are not so marked, nor are they of the same nature.

Study by experts needed.

We are convinced, after several months' study and actual field work, that it would be of great value from a standpoint both of economy and equality that the agricultural land of the different counties be

thoroughly studied by experts placed in the field to gather data on all of the physical conditions entering into the matter of land value. This should include classification of the specific soil and water conditions, definite summary of the topography and actual survey of the crop covering, of accessibility, and, in many regions of the state, a districting as to climatic conditions.

It is the belief of this Commission that all of this data, together with sales, exchanges, crop value, income, rents and other information, should be obtained and kept up to date and made a matter of record in the office of the county assessor; that in that office there should be platted and tabulated all the information that is available which enters into the determination of land values under the extremely variegated conditions which exist throughout the state of California. Such a study would also include the cruising of timber for the purpose of equitable taxation.

Would be valuable to private persons as well as departments of government.

This data, while serving primarily for the assessment and equalization of tax values, would also be extremely valuable in many other ways. It would serve as a foundation for appraisements of all kinds, not only for private purposes, such as for the information of banks and of private individuals looking for investments, but would also serve an additional public purpose for the use of many state departments, such as the Corporation Commissioner, the Banking Department, the State Water Commission, the Insurance Department and the Railroad Commission, and in addition it would be a prime necessity if the state or the government entered into the matter of rural credits.

Assessor not always at fault.

The fault of inequality of assessment in the state does not lie to any great extent at the door of the local assessor, unless on some rare occasion that official has been given the means and facility with which to gather the proper data upon which to make a proper assessment. Usually he is undersalaried for the importance of the position and has been given just enough help to put the assessments each year on the rolls, without the facility to go into the detail necessary to the determination of relative values. Under the law the roll must be written at a certain time, and with the means available the assessor has each year simply been able to comply with the letter of the law.

The fault lies to a considerable extent in the fact that the people of the community and the state have not recognized that there is something more to an equitable assessment than the mere gathering of ownerships and hurried placing of values. They have failed to realize or admit that the assessment of property is the most important thing in the levy of a tax, and until this fact is brought home and recognized there will continue to exist the great inequality in the tax burden among the different property owners.

This proposal would result in a big constructive work of inestimable value to the state. Actual field work accomplished by this Commission has shown the importance of the work.

Present system inequitable.

In the limited acreage covered we found some acreage not on the assessment roll. We found improved orchard acreage assessed for only about half the area actually covered by orchard. We found good bottom land assessed as poor land, and other discrepancies. These are things for which the assessor is hardly to blame, because a classification and survey is necessary to properly establish the facts.

The indication from our study is that the first cost would average around six cents per acre. The cost of keeping the records up to date would be negligible unless additional details were added. The work should be handled uniformly throughout the state.

Pioneer work along this line is now being done in Glenn, Shasta and Tehama counties by their assessors and boards of supervisors, on their own initiative, notwithstanding the fact that assessment under the old methods was as well done there as in any of the counties. This Commission has no definite knowledge of results in those counties to date, but is looking with interest to the time when the independent work there may be advanced far enough to evidence conclusions as to its value.

CITY ASSESSMENTS.

Of equal importance with agricultural land classification is the proper compilation and assembling of data and the scientific determination of values on city property. A few of the cities of California have attempted assessments of city lots after the Davies, Hoffman, Lindsay-Bernard, Somers, Harmon Neill or Newark rules for obtaining relative values. In some instances mathematical rules for valuing buildings have been applied.

So far as we know in this state, the city and county of San Francisco made the first serious attempt in scientific assessments, and has in the past ten years been well to the front in methods of assessment. We are constrained to believe, however, that the consummation of equity has been seriously handicapped by the lack of means to make a proper intensive study of current conditions.

In other of the larger cities advance has been made along this line, but in the main it has been slow and inadequate. In the city of Marysville several years ago a citizens' committee did notable work in equalizing the assessed values of land, improvements and stocks of merchandise. The effectiveness of their labor is being lost because of no adequate means for maintaining same.

In truth, an equitable system of assessment and taxation is like a road; however good a foundation may be laid, it will soon become useless unless properly and constantly adjusted and maintained.

In Los Angeles County there has recently been finished a reassessment of property values, including city property, following the lines of the Somers system. As a whole, a valuable piece of work was accomplished. It will need smoothing down and adjusting, naturally, and, above all, it will need intelligent maintenance. The present experience of Los Angeles County shows the vital importance of a law limiting the gross amount of the tax levied for any political subdivision, so that a raise in the assessed value from any cause cannot bring about an increased burden of tax. We discuss this under the heading "County Charters and Tax Limitations."

ONE ASSESSMENT FOR ALL TAX PURPOSES.

One of the absurdities of our present practice of assessment is that there are found two different values for taxation in cities, one for municipal and one for county purposes, under a law providing for a full, cash value assessment for both.

The limitation of the rate in most cities accounts for the higher valuation by city assessors, and it also shows, as pointed out elsewhere in this discussion, the uselessness of attempting to limit the amount of taxes by a maximum rate.

In counties where the county takes over the assessment of cities there is a tendency to increase the city assessments over the county assessments, and where the cities do their own assessing with a much higher value, the tendency is for the county assessed value to creep up

more rapidly than on outside property, where no comparison of such values is possible, so that in both methods, under our present practice, the city property generally bears a higher proportion of the county tax than the outside property. There is also a noticeable variation between cities in the same county. The correction for this is one assessment for all purposes and one assessment at full value.

Logically, from a standpoint of economy, efficiency and equity, there should be but one assessment for all tax levy purposes. Instead of two offices and two sets of officials covering the same territory inefficiently, there should be one office and one set of officials properly and efficiently equipped to make a real assessment. Naturally, the county assessor's office would be the office to do this work.

Along with the uniformity of assessments in each of the several counties should come the co-ordination of assessments throughout the entire state, with sufficient central machinery to accomplish the same through co-operation on the part of the county officers.

If it is proposed, as it should be, to have limitation laws, let those laws be such as will produce results by placing a percentage limit upon the possible increase of total taxes levied or expenditures recorded one year over that of the preceding year.

NOTIFICATION OF TAXES AND ASSESSMENTS.

It is quite essential that something definite should be accomplished toward a better method of notification of the existence of taxes and assessments which become liens on realty. There, of course, is little excuse for any person allowing a delinquency to occur in the matter of the payment of city and county tax, but under our methods of handling other forms of taxes, such as special district, sewer and street assessments, it is next to impossible for many resident owners and practically impossible for nonresident owners to be reasonably sure that there is always a clearance on the property which they own.

If the law is to take the property for the nonpayment of these assessments, surely there should be some more adequate means of notification. On the other hand, the cost of personal notification in each particular instance of assessment would run the overhead cost too high. However, there is no reason why provision should not be made for notification of the assessment being carried along with the county or city tax statement where an assessment for any other purpose exists. This, we believe, could be accomplished by a new provision of the law or by amendment to existing provisions.

COLLECTION OF TAXES AND ASSESSMENTS.

We suggest that it is essential to the well-being of the taxpayer that the collection of taxes and assessments be unified and simplified. It is entirely practical that the levying and collecting of all taxes and assessments could be so arranged that at one definite time the property owner would have knowledge of the total amount of taxes and assessments standing against his property and could pay the same, or the proper installment of the same, with a definite knowledge that his full obligations have been met. It would be no matter of hindrance to public work, and not impossible to have all special assessments due and payable in whole or in part at the two periods of time when taxes are payable, and it would be infinitely better for the taxpayer to know that at certain definite periods he would be called upon to pay his obligations, and at no other uncertain time would demand be made upon him. In addition to this there is no reason why all of these collections should not be made by one agency, thus saving the duplicate effort and expense both of the tax collecting officials and of the taxpayer.

RECORD OF CONSIDERATION IN REAL ESTATE TRANSFERS.

It is the belief of this Commission that whenever a transfer of realty is made and recorded the actual consideration in dollars and cents should also be made a matter of record along with the transfer of ownership. The actual value of property is the basis upon which the assessed value of property is now fixed under our law. The means of obtaining definite and conclusive information as to actual consideration in approximating the cash value of property is extremely difficult and uncertain.

This Commission has made an attempt to collect sales data in different counties in the state, and while it realizes that during the past year or two a minimum amount of sales have been made, yet it is almost impossible to get a line on such data as should be available for use in checking values. The same difficulty has been encountered in the past when conditions were normal, so far as the endeavor on the part of the state officials is concerned, as well as that on the part of county officials.

The consideration reached in the matter of sale of real estate is a matter in which the public, in a broader sense, is deeply concerned, and all data of this nature should be available for public use.

COUNTY CHARTERS AND TAX LIMITATION.

Counties are gradually taking advantage of the provision of the constitution granting them a right to special county charter, and a few of them in forming such a charter are agitating the matter of a limitation upon the tax rate. Recently, for instance, Tehama County has voted a new charter providing for a limit on the tax rate of $1.65.

It should be pointed out that the limitation of the tax rate under the existing tax conditions in California means nothing so far as the limitation of expenditures is concerned.

The idea seems to be prevalent among a large number of people that if the tax rate itself is limited the amount of taxes thereby will be checked, failing, evidently, to recognize the fact that there are two elements which enter into the matter of taxation: First, the assessed value, and, second, the rate; and that the burden of tax can be fluctuated by the manipulation of either one or both of these factors, so that the county that votes a limitation of a rate with the hope of reducing taxes or controlling them is resting its expectation on a false premise, because it only needs the raising of the assessed value to increase the amount of tax.

This Commission would suggest that the only effective way of placing a restriction would be to place a limit upon the total amount of taxes that could be raised yearly in a given county. For instance, in Arizona the state constitution has taken care of that by prescribing that in any one year no more than five per cent increase in the total amount of tax raised can be levied over the preceding year in any county or other political subdivision. Along with this is a provision providing for an emergency allowance, good for only one year, upon a presentation of the necessity therefor to the state tax body, which, after public hearing, grants or refuses the increase. Such a measure we advocate for California as being one of the most effective means of producing economy in governmental affairs.

EXEMPTION OF CHATTEL MORTGAGES.

While it may not be of first importance, this Commission would suggest that there seems to be no legitimate reason why a mortgage secured by chattel should be subject to taxation any more than a mortgage secured by land. As was true in the case of mortgage on land, the tax on the chattel mortgage is paid by the borrower. We believe, therefore, that if a constitutional amendment is proposed making

changes in the provisions regarding revenue and taxation, the correction should be made treating all mortgages the same in the matter of taxation.

TAX ON AUTOMOBILES.

We suggest that it would be much more equitable and much more easy and economical of administration if the automobile were exempt from local personal property tax and a total tax levied and distributed through the state license.

INCOME TAX.

The tax on incomes has been the matter of much public and private discussion throughout the state during the last two years or more. It was agitated and considered at the last session of the legislature as a means of producing revenue in place of the abandoned poll tax. It is a serious question as to what extent the state should embark upon this method of tax, in face of the use of the income tax by the federal government. This Commission is not favorably inclined at this time to recommend an income tax for the purpose of supplementing the present tax system, but is inclined to believe that if it were substituted for the tax on certain kinds of personal property it would be more equitable than is the present levy of tax on personal property. Particularly is this so in regard to intangible personal property. If the income tax were levied as a substitute for personal property tax it should be, of course, apportioned back to the several counties and municipalities to the extent that it would take the place of the tax on such forms of personal property as would be exempt.

TAX ON EXCESS LAND VALUES.

Our problem of the land in California is becoming more and more a real danger. It is one which should be attacked at once in a manner adequate to relieve the tension and at the same time to safeguard the stability of our economic conditions. In so far as this problem may be approached from the standpoint of revenue and taxation, this Commission wishes to suggest an outline under which a forward step may be taken, and presents it at this time with the hope that there may be the fullest public consideration given the question.

Large land grants make problem difficult in California.

The land problems in California undoubtedly are made much more difficult than in many states of the Union for a number of reasons, among which are the conditions growing up because of large Mexican grants which were accepted and recognized by the federal government at the time this territory was annexed to the United States; because of the slowness with which the agricultural development of the state as a whole has grown, and also because of the vast acreage of land, which, on account of the lack of natural crop conditions and undeveloped water, was considered in the earlier days practically worthless, but which now is undergoing a rapid development because of the intense usefulness of the land where water is applied.

As usual, there was practically no recognition of the fact that there was a problem until it became apparent that the evils of the present system had developed many difficulties.

There are the two extreme ideas which must be placated in any settlement of the trouble. On the one hand is the old idea of unqualified private ownership and control, without any interference which would check the speculative features of land ownership, and on the other side, those extremely radical views that would disregard altogether property rights and confiscate all land values regardless of the equity of private ownership.

Large holdings of unimproved land against public interest.

This Commission desires to suggest some means by which an equitable adjustment of the trouble may be had without allowing either of these two extremities to exist. We start with the following statement:

First. The private ownership of large holdings of land unimproved and uncultivated is recognized by the constitution of this state as being against public interest, forcing, as it does, the purchaser who wishes to improve his land to pay to the holder the speculative and socially increased value of such land.

Second. The holding of large interests in improved land and the consequent accretion of value thereto because of its situation, and not because of the efforts of the owner, is also against public interest.

Third. Fundamentally, every man has the right through his labors to a reasonable living from the land, and there should be recognized a maximum value of land which he is entitled to obtain and hold at a minimum cost as long as he makes beneficial use of the same.

Tax suggested to discourage such holdings.

Assuming the above statement to be correct, we suggest an additional, or excess, tax on increased land value as follows:

A maximum excess tax on the future increase in value of all unimproved land or land not put to any beneficial use.

A lesser rate of tax in the case of land improved or being put to beneficial use.

The exemption from such tax for each individual of a reasonable holding of improved or beneficially used land.

This Commission does not at this time wish to propose any definite value for exemption, but purely as a matter of discussion we would suggest that the value of the exempted homestead right, namely $5,000, be considered as a starting point, it being accepted tentatively that this would be the proper equitable allowance.

With these figures as a base, our suggested plan would mean that every person owning improved land or land being put to some beneficial use, up to the value of $5,000, should be exempt from an excess tax on the increased land value; that all land not in use should be subject to a maximum tax of such character; that all property in use in excess of the exemption should be liable to a lighter tax than the unused property; that the tax should be levied so that at definite periods a substantial proportion of the value which has been added to the land because of site or social conditions would be collected and paid into the treasury of the state.

Revenue from this source to be put in permanent fund.

The money collected from this source, we would suggest, should be kept in a permanent fund to be invested in securities issued for the building of roads and other similar public improvements; the development of reclamation or irrigation districts; for rural credits, or in any other way that would bring about an increase in social value which would in turn be returned to the fund. We further suggest that the interest which would be collected from the investments and loans of

the fund should be used in the support of public schools or other general governmental purposes, thus being utilized to reduce uniformly the tax burden throughout the commonwealth.

This Commission deems this matter of vital importance to the future welfare of the state. Complete details of the proposed innovation should be worked out only after the fullest public discussion as to the merits of the fundamental idea.

Commission asks for criticism and suggestions.

We ask for criticism and suggestion in order that a proper and equitable start may be made, not only toward controlling the great speculative features of our land ownership, but also toward building up small land holdings and developing our unused land, together with what must necessarily follow—the protection of legitimate land investment and stable land values, and a more equitable distribution of the burden of taxation.

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